THE FINANCIAL OUTLOOK.

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RECENT events have operated to concentrate the attention of the world upon the monetary system of the United States. The financial policy established by the act of 1890 is universally condemned, but public opinion is by no means unanimous as to the policy which should be substituted for it.

In the last Congress an attempt was made to abrogate that portion of the act of 1890 known as the Sherman Law, which provides for the annual purchase of 54,000,000 ounces of silver by the government, but it failed, because men who openly denounced the law voted against every attempt to modify its provisions. Many members who voted against the act providing for the suspension of silver purchases justified their course by the statement that they would never consent to the repeal of the Sherman Act "*unless some satisfactory substitute were adopted.*"

This disposition to make the repeal of the Sherman law conditional upon the adoption of some scheme of silver coinage throws a doubt over the future financial policy of the country. The recent utterances of the President and of the Secretary of the Treasury, however, appear to settle beyond question that the present Administration is determined to use all the means at its command to maintain a gold standard.

A discussion of the future financial policy of the United States therefore involves three questions: *First,* whether any further compromise between the advocates and opponents of free coinage of silver by this government be possible or advisable; *Second,* whether the discretionary powers vested in the Treasury Department by existing laws can be exercised so as to maintain a sound currency; and, *Third,* whether there be any prospect of an ultimate repeal of that part of the Sherman Act which provides for the purchase of large quantities of silver bullion.

The question of free coinage of silver by the United States may be excluded from consideration as nobody deems the passage of such a law within the limits of possibility during the present administration.

I.

It must be apparent to every thoughtful observer that any further experiments in the direction of a limited silver coinage would be productive of nothing but confusion and disorder. The statement of those who declare that while they do not believe in the Sherman Law "they will vote against its repeal unless some satisfactory substitute be adopted" offers no suggestion of future legislation worthy of attention.

The policy which has involved the finances of the United States in a confusion without parallel in the history of prosperous nations is due to the folly of attempting to compromise an economic principle. Economic laws are not the product of legislation; they are the result of forces which no one country can affect, and which the combined legislation of all nations could not permanently control. An attempt to compromise an economic law is about as intelligent a proceeding as an attempt to compromise the state of the weather or the course of the seasons. If two men, joint owners of a field, disputed the proper season for planting grain, one insisting it should be planted in April, the other contending it should be planted in October, and they should compromise by planting it in January, does any sane man believe that a fruitful crop would crown the husbandry which had been the result of such a compromise? The men who scattered seed upon the ground at a period when the laws of nature necessarily made it unproductive would have exercised an undoubted individual right, but their course would have exposed them to the pity and the ridicule of sensible men. So, in treating subjects controlled by economic laws, contending members of a legislature may agree upon a compromise which will prove effective to close debate and postpone discussion, but the economic laws will be in no wise affected by their arrangement, and if the scheme which they adopt be out of harmony with those laws the result will be disastrous to commercial prosperity.

The Bland Act of 1878 and the Sherman Law of 1890 were both compromises between the views entertained by advocates of free coinage and the opponents of it. Both have resulted disastrously to the country and both are to-day condemned by men of all shades of opinion upon the financial question. If government cannot control the course of economic laws, its only prudent course is to act in obedience to them so far as they may have been ascertained. There is no sensible middle course between the free coinage of silver and the total demonetization of silver. If silver be admitted to coinage at all it should be admitted freely and fully, without any restriction. A limited coinage of any metal forces the government to become a purchaser of it, and therefore reduces it to the status of a commodity. Whether admitted freely to the mint or totally excluded from it, a metal will always find its natural level. If it be made the subject of government speculation its commercial value is subject to arbitrary interference, with the inevitable result of depreciation.

It is quite true that the standard dollars coined under the Bland Act of 1878 circulated freely in this country at their par value, and Mr. Cleveland's memorable letter to Mr. Warner, written in 1885, is often cited to prove that the gloomy prophecies of those who were opposed to that law have never been fulfilled. Although these silver dollars never sank to a discount, Mr. Cleveland's letter was none the less a substantially sound statement of the financial confusion which would have inevitably arisen out of the operation of the Bland Act if it had continued in existence. His prognostication was inaccurate, only, in speaking of the danger as immediate, when in fact it was remote. The Bland silver dollars circulated in this country at their par value, because there was one perfectly solvent institution which was forced to accept them at that valuation. The law having made them receivable in payment of debts due to the Government, they could always be paid into the Treasury at their par value in gold. But the capacity of the Government to absorb these dollars was necessarily limited to the extent of its revenues. If the Bland Act had remained in force until the number of standard dollars coined had largely exceeded the total revenues of the Government, there would have been no place at which the surplus could be exchanged at par with the gold dollar. As they became redundant, the inability to export them freely would have become apparent, and

they would inevitably have depreciated to the bullion value of the silver which they contained.

It has been suggested that a revival of the Bland Act might prove a satisfactory measure to those who admit the failure of the Sherman Law, yet hesitate to vote for its repeal. Of the two laws the Bland Act is in every way the more vicious. The Bland Act remained in operation some twelve years, and if it were now revived it is reasonable to assume that an equally long period would elapse before it could be again disturbed. By that time there would be over eight hundred million standard dollars in actual circulation, a greater amount than the Treasury could absorb, and since nobody would be bound to accept the surplus they would at once sink to a discount, and the currency of the country would be reduced to the condition foreseen by Mr. Cleveland in 1885.

In the operation of the Sherman Act the Government is subjected to a heavy loss. The bullion which it purchases is a steadily depreciating commodity, but the loss falls upon the Government which is responsible for the senseless legislation which produces it. If the dollar coined under the operation of the Bland Act sank to a discount it would mean a shrinkage in the value of the money in the pocket of the citizen. Where a vicious or unsound financial policy is pursued by a government, it is manifestly better that the loss accruing from it should fall upon the government which is responsible for it, rather than upon the citizen who is the victim of it. The Sherman Act is the most absurd financial measure ever adopted by a civilized nation, but its very absurdity furnishes a reason for believing that its repeal will soon be accomplished.

II.

SINCE it is certain that no measure providing for the free coinage of silver can become a law during the next four years, and as any further attempt to control economic laws by compromise legislation would be indefensible, the question arises how far can the government maintain a sound currency with the powers intrusted to it by the existing statute.

Under the Sherman Act the government is compelled to purchase 54,000,000 ounces of silver every year at the market value of the metal. In payment of this silver the Government issues notes

payable "*in coin,*" which manifestly means in gold or silver coin. The statute, however, requires the Secretary of the Treasury to maintain the parity between gold and silver. In order to obey this last provision of the law it is plain that in redeeming these notes the Secretary is bound either to redeem them in gold or in an amount of silver equivalent to their face value in gold.

Under both the Republican and Democratic administrations the Treasury Department has placed this interpretation upon the law. Under this interpretation, the silver purchased by the Government cannot be used in the redemption of the coin notes. It remains idle in the vaults of the Treasury, precisely as if it were iron, or hay, or barley, or tobacco.

In the course of the debate upon the free coinage bill in March, 1892, Mr. Bland declared that the notes issued under the Sherman law were practically gold notes, and in this view every reasonable man must concur. These notes are mere evidences of debt due by the Government. Evidences of debt issued by a government are subject to the same economic laws as evidences of debt issued by individuals or corporations. The value of a promise to pay depends upon the ability and the willingness of the promiser to redeem his obligation.

While the Sherman law makes it compulsory upon the Government to continue issuing paper for the purchase of 4,500,000 ounces of silver every month, it does not empower the Treasury to obtain any gold wherewith to redeem them. Every increase in the number of the notes involves an obligation to acquire a larger supply of gold. As these notes are forced into circulation they displace and expel some other form of currency, and as gold is the only money of international value it is steadily withdrawn from the Treasury for export. The holders of the notes, seeing their volume increase while the amount of gold available for their redemption decreases, become doubtful of their value and they hasten to take advantage of the law which allows them to be used in discharge of debts due to the Government. The inevitable result follows. The revenues of the Government are substantially paid in its own paper obligations, and thus the policy which makes it imperative upon the Government to obtain an extraordinary supply of gold becomes the means of preventing it from obtaining even the supply which under ordinary conditions would be yielded by its revenues.

A premium on gold, that is to say, a willingness on the part of those who hold Government paper to exchange it for less than its face value in gold will be the inevitable result of a widespread distrust of the Government's capacity to redeem its obligations. As this, however, would be a great hardship upon the innocent holders of Government paper, and as it would entail the most serious consequences, the Treasury is morally bound to maintain the value of its notes by all the means at its command.

A government can only obtain gold by collecting it as part of its revenues or by borrowing it. The reports of the Treasury show that under existing financial conditions it is idle to hope that its dwindling stock of gold can be replenished by the proceeds of taxation. If the present drain on its resources be continued the Government will therefore be forced to pledge its credit in order to obtain the gold necessary to redeem its obligations.

The withdrawal of gold has undoubtedly been stimulated by the fear that this country was rapidly drifting to a silver basis. If the commercial world become convinced that the Government intends to maintain a gold standard at whatever cost, and that if its revenues do not yield sufficient gold to meet its obligations it will pledge its credit to secure an adequate supply, confidence in the soundness of its paper would be largely restored, and the outflow of gold would be sensibly checked.

There is little doubt that the credit of the Government is sufficiently high to warrant the belief that it can obtain all the gold it may need at the rate of from two and one-half to three per cent. The credit of the Government being undoubted the moment its willingness to pledge it became established, confidence in its notes would be restored. Gold which is now hoarded would be freely restored to circulation, because each coin note would become practically a gold certificate of deposit issued by the Government and would be just as valuable as the coin itself.

It is true that the Sherman Law does not authorize the Government to borrow gold for the redemption of notes issued under its provisions. The resumption act, however, empowers the Secretary of the Treasury to borrow whatever gold may be necessary to redeem all outstanding United States notes commonly called greenbacks. There are now about three hundred and forty-six millions of these notes in circulation, and under the law they cannot be cancelled on redemption but must be reissued.

Since the greenbacks must be kept in circulation the power to borrow gold for their redemption is necessarily continuous.

While, therefore, gold could not be borrowed for the direct purpose of redeeming the coin notes issued under the Act of 1890, yet these notes could be exchanged at the Treasury for United States notes—greenbacks—and these latter could in turn be exchanged for gold coins. This would be an indirect but effective method of maintaining gold payments on the paper issued against the silver bullion purchased under the provisions of the Sherman Law. It would, moreover, be a practical demonetization of silver and a substantial adoption of the gold standard. While the operation of the Sherman law would still impose a severe strain upon the country, its financial system would nevertheless remain upon a sound basis. The continued purchase of silver would still be a wasteful, extravagant, and ridiculous performance, but it would in no way affect the currency of the country, except in so far as it would increase the number of government obligations forced into the circulation.

III.

The Sherman law has been the parent of many evils, and many have been attributed to it for which it was not responsible. When we consider the forces that have hitherto sustained it, there is reason to hope for its repeal. The advocates of free coinage of silver are themselves dissatisfied with it; yet they have maintained it on the statute book, because they foresaw that under its operation a time would come when the public revenues would be substantially paid in government paper, and they hoped that the Treasury, deprived of any supply of gold, would be forced to coin the silver bullion in its vaults and use it in redemption of its obligations. But the determination of the Administration to maintain the gold standard at all hazards has defeated this expectation. The Government can obtain on its credit the gold which its income fails to supply. With the country upon a gold basis, the Sherman law will ultimately have no more active opponent than the producer of silver.

The act itself is a distinct violation of all economic laws and like all similar acts its results have been most disastrous to those whose interests it was expected to subserve.

If men be governed by the ordinary rules of human prudence it is safe to assume that it will soon be repealed by the consent of those who now support it. It was passed for the purpose of maintaining the price of silver. Its effect has been to depreciate it. In 1873 silver was demonetized by Germany and the United States and the coinage of silver was suspended in France ; yet in the two years between 1873 and 1875 the fall in the price of silver was only about five and one-fifth cents an ounce. In 1890 the Sherman law was passed and during the two years from 1890 to 1892 the price of silver fell about seventeen cents an ounce. From 1874 to 1875 silver declined about three and one-fifth cents an ounce ; from 1891 to 1892 it declined about eleven cents an ounce. Its downward course since the adoption of the Sherman law has been vastly more rapid than at any period since 1873. The production of silver throughout the world in 1892 was about equal to its production in 1891, and this rapid shrinkage in value cannot, therefore, be ascribed to increased production. Its depreciation has been caused by the policy of the Government, and it has proceeded according to perfectly well-settled economic laws.

To many the economic significance of the word purchaser is the same as that of the word consumer ; and in the practical operations of life the purchaser is either a consumer or the agent of a consumer. But the Government is an exception to this rule. While it is a purchaser of silver, in no sense is it a consumer of silver. On the contrary, it is an efficient agency to prevent consumption. Every ounce of silver stored in the Treasury increases the visible supply of the commodity and by increasing the visible supply necessarily depreciates the price. As the amount in the Treasury increases the commercial world becomes convinced that sooner or later the Government must throw it on the market. It is fair to assume that great as the depreciation has been this year, with each addition to the stock in the Government vaults the price will diminish with increased rapidity. In the light of this experience, it is difficult to see what benefit the mine owner has reaped from this legislation, which was conceived in especial benevolence for him. The provision which forces the Government to purchase his product is of no substantial benefit to him. If the Sherman law never had been passed he could have deposited his metal in any warehouse in any city, and upon the

warehouse certificate he could have borrowed ninety per cent. of its face value in any bank in the world. But ninety per cent. of the value of silver in 1889 was equal to more money than one hundred per cent of its value to-day. The money which he could have borrowed in the open market would have been available for use through the exchanges in any quarter of the globe. Moreover, his product would have been open to consumption. He could have freely disposed of it under general commercial usages, and every ounce consumed would have helped to stimulate or maintain the market price of the metal. Scattered in various parts of the world the supply would not have been, as it is now, concentrated in one spot, a portentous cloud hanging over the market, disturbing confidence and depreciating values. It is amazing that the mine owner has not long since opened his eyes to this aspect of the question. Sooner or later he will realize that his own interests are being jeopardized by the operation of this act, and he will join in a movement to repeal it. In order to convince him of its pernicious effects it may be necessary that his product should sink from eighty-three cents to seventy-five, or sixty or fifty cents an ounce. If the Sherman law continue in operation it is certain that the value of silver will reach a point low enough to satisfy him that he is the principal sufferer from its operation. When it shall have been finally wiped from the statute book the Government will be the possessor of a vast amount of bullion against which it will have issued notes, whose face value will in all probability far exceed the value of the bullion. But this loss will be the penalty which the Government must pay for the experiment in which it has indulged.

It must not be inferred from what has been written that those who believe that this government should go immediately to a gold basis are opposed to bimetallism. The writer of this article believes that the business of the world will never be on a stable basis until the free coinage of silver shall have been restored throughout the world. The difference between those who support free coinage by the United States at the present time and those who oppose it is simply a difference of opinion as to the methods by which bimetallism may be reached. Mr. Bland professes to believe that free coinage of silver by the United States would immediately restore silver to a parity with gold, yet the measure which he introduced in the House was not a free-

coinage measure, but a measure for the issuance of Treasury notes in return for silver bullion, which notes should be redeemable in silver or gold at the option of the Secretary of the Treasury. If Mr. Bland's theory that the coinage of silver by the United States would restore the two metals to a parity were well founded nobody would object to his measure. But since the depreciation of silver did not result from its demonetization by any one country, but from a general movement to a gold standard throughout the world, it is very unlikely that its restoration to coinage by one nation would be sufficient to counteract the effect of its demonetization by several nations.

The universal adoption of a gold standard will present a very serious problem to the commercial world.

Mr. Gladstone, in a recent speech, spoke of existing monetary conditions as being satisfactory to England, and it is undoubtedly true that existing conditions are highly favorable to her. While silver is maintained in the coinage of several countries it is part of the metallic money of the world. But if this country and other countries go to a gold basis Great Britain will be forced to face, not the question of conserving existing conditions, but the question how to meet new conditions. The full tender metallic money of the world consists in round numbers of about 7,000,000,000 of dollars, of which very nearly one-half is silver. If silver be universally demonetized the metallic money of the world will be reduced one-half, and the problem which would then confront all commercial countries would be the possibility of maintaining the business of the world with one-half the existing stock of metallic money. If actual experiment proved that 3,632,605,000 gold dollars formed a sufficient money basis on which to transact the whole business of international exchange, the demonetization of silver would undoubtedly be a salutary measure. If, on the other hand, experience proved that this tremendous reduction in the stock of metallic money tended to unsettle credit and paralyze enterprise, silver would be recalled into coinage by the concurrent demand of the people of the whole world.

Any country which enjoys the benefit of a single monetary standard will be very unlikely to experiment with a double standard, merely to simplify the domestic politics of some other country. England will maintain the gold standard so long as the

total volume of metallic money throughout the world is helped out by the silver circulation of countries that maintain the double standard or the single silver standard. What she may do when confronted with such a reduction in the volume of metallic money in the world as would be caused by a general demonetization of silver no man can say. But it is certain that if the United States join this general movement towards a gold standard she will occupy the strongest position of any nation in the world. She is not an exporter of luxuries, but of necessaries. The things which she has to sell are the things which are essential to the support of life. Whatever may be the prevailing currency of the world, a large proportion of it must necessarily flow to her shores.

The dislocation of the par between silver and gold was in the judgment of many a reckless and ill-advised experiment. For centuries these metals had remained at a parity. The legislation which caused the divergence in their values may have been shortsighted and pernicious. But while it may be deplored it cannot be remedied by the isolated action of a single country. "The battle of the standards" which Mr. Bland foresees cannot be decided by legislation. Silver will be remonetized if the necessities of trade demand its remonetization. When all the commercial nations are brought face to face with the consequences of its universal demonetization the imperious necessities of commerce will bring about a final solution of the coinage question.

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